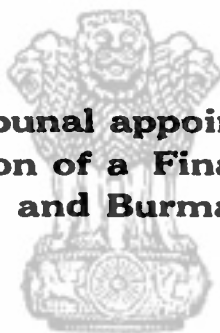

**Report of the Tribunal appointed to advise on
the Formulation of a Financial Settlement
between India and Burma in the event of
Separation.**



सत्यमेव जयते

MEMBERS OF THE TRIBUNAL.

THE RIGHT HON. L. S. AMERY, M.P., *Chairman*.

THE RIGHT HON. SIR SIDNEY ROWLATT, K.C.S.I.

SIR WALTER NICHOLSON, K.C.B.



सत्यमेव जयते

REPORT.

To the Right Honourable Sir Samuel Hoare, Bt.,
G.C.S.I., G.B.E., C.M.G., M.P.,

His Majesty's Secretary of State for India.

We have the honour to submit our Report on the questions referred to us in the following terms :—

“ The Joint Select Committee of Parliament on Indian Constitutional Reform having recommended that Burma should be separated from India and that early steps should be taken for the determination by an impartial Tribunal of the principles of an equitable apportionment between the two countries of assets and liabilities,

The Tribunal are requested—

- (1) to advise as to the basis on which a just financial settlement between the Government of India and the Government of Burma when separated should be made ;
- (2) to indicate—
 - (i) how their findings under the first Term of Reference should be applied to the position resulting from the provisions in the Government of India Bill (1935) for allocating to the Government of one country or the other the possession and control of certain property and for imposing certain legal liabilities on the revenues of one country or the other ; and
 - (ii) so far as practicable the financial consequences of such application ; and
- (3) to advise, in the light of the findings under the First and Second Terms, as to the lines on, and the method by which a complete financial settlement may be achieved between the Governments of India and Burma in respect of assets and liabilities existing at the date of separation.”

2. A preliminary investigation of the problem was made in 1930 by Sir Henry Howard, K.C.I.E., C.S.I., and Mr. J. C. Nixon, C.I.E., whose Memorandum on the subject contains much valuable information and has been of the greatest assistance to us throughout our investigation. The figures in this Memorandum relate to the 31st March 1930. We have, however, been supplied with revised figures relating to the 31st March 1933, the latest date for which complete accounts are available, and it is the latter figures which we have in the main employed to illustrate the application of the principles which we recommend. In certain cases, where it has appeared that material changes in the nature or relative importance of the items calling for consideration were possible or probable, we have found it necessary to examine in addition the estimates of later years.

3. The views of the Government of India have been placed before us by Mr. J. C. Nixon, C.I.E., and those of the Government of Burma by Sir Henry Howard, K.C.I.E., C.S.I., Sir Samuel Smyth, K.C.I.E., C.S.I., and Mr. T. Lister, C.I.E. In addition to furnishing us with reasoned statements on behalf of their respective Governments, these gentlemen have supplied, at our request, much detailed statistical matter bearing on the question at issue, and we wish to express our appreciation of the ability with which they have presented and defended their cases and of the invaluable assistance which they have rendered us in the discharge of our task.

4. In addition to the facts and arguments laid before us by the representatives, we have carefully considered, *inter alia*, the undermentioned documents :—

The Report of the Standing Finance Committee of the Indian Legislature, laid before the Legislative Assembly on 18th March 1932, and the debates thereon.

The Report of the Finance Committee of the Burma Legislative Council and the Government of Burma's Memorandum thereon.

5. We proceed to deal with the questions submitted to us under the several heads of our terms of reference.

THE BASIS OF SETTLEMENT.

6. Under the first head of our terms of reference we are asked to advise as to the basis on which a just financial settlement should be made between the Government of India and the Government of Burma when separated.

7. The principle advanced by the representatives of Burma is based on the theory that the present relation between India and Burma is that of an administrative partnership between two distinct governments. They envisage separation as the reverse of the process which would occur should two such governments mutually agree to unite and replace their separate administrations by a single government common to both. In such a case, they urge, the expenses of that government, including such accrued liabilities as pensions, would be met out of the common revenue. Conversely, in the case of a united government divided into two portions, the separated portions should after division meet the outgoings appropriate to the functions performed in their respective territories, including pensions earned by service in or in respect of those territories. They contemplate, in fact, the separation of two existing entities, hitherto joined in an administrative relationship, and their continuance as going concerns.

8. The Government of India have not, either in the case laid before us by their representatives or elsewhere, committed themselves to any particular theoretical basis. The method they advocate is, however, in practice this : they would assign to each Government a share of liabilities corresponding to the Central assets of which, for geographical or other reasons, it assumes possession, and would divide the balance of liabilities remaining in a proportion based on the combined revenues, Central and Provincial, collected in the respective territories during some selected period prior to separation.

9. Suggestions have been put forward from time to time by both sides for the modification of the settlement in their favour on historical grounds. On the side of India it has been suggested that Burma should be responsible for the debt caused by the cost of the Burma Wars ; that she was in the early years a deficit province ; and that her railways for many years were operated at a loss. On the side of Burma it has been urged that taxation per head is much higher in Burma than in India ; that Burma has for years been contributing a sum to the Central Exchequer greatly in excess of Central expenditure in Burma ; and that in spite of heavy taxation she is still the most undeveloped part in India.

10. After careful consideration of these views we have arrived at the following conclusions. The existing Government of United India is not a partnership between two existing entities. It is a single government which at the date of separation will go out of existence, leaving behind it certain assets and liabilities. It is our task to advise as to the method by which these assets and liabilities should be valued at the date of separation and in what proportions the two new States which will be created by the act of separation should bear the burden of the excess of liabilities over assets. In assessing these proportions we do not think it right to enquire whether the terms of the past association have been mutually satisfactory, or whether either party will gain or lose by separation. It must, in our opinion, be assumed that all taxation up to the actual date of separation was imposed and all expenditure allocated by the common government in the common interest.

11. The method we recommend, therefore, is that the whole of the assets and liabilities of the present Central Government of India should be valued on lines which we indicate hereafter ; that the ascertained value of the assets should be deducted from that of the liabilities ; and that responsibility for the balance of liabilities should be assigned to the two new countries in a proportion or ratio to be determined by a general consideration of their relative financial and economic situation. The balance to be so divided should include the liability for pensions, whether in course of payment at the date of separation or coming into payment thereafter as a result of Central service before separation. We hold pensionary payments to represent, not an item of the cost of current governmental activities, but the discharge of a liability incurred in the course of past activities, and therefore correctly allocable in the same manner and in the same proportions as a debt outstanding at the date of separation.

12. To this general principle of division we propose that one exception should be made. We are advised that the Government of India and the present Government of Burma have agreed that Burma shall, at all events at the outset, remain within the currency system of the Government of India and continue to make use of the Reserve Bank of India. It has been further proposed that certain assets and liabilities arising out of, or connected with, the working of the currency system and the relations between Government and the Reserve Bank shall not be distributed at once, but shall be held in common by the two parties under a special arrangement as to the sharing of the resultant profits and losses. We are prepared, with certain reservations, which we state in a later, portion of this Report, to accept this proposal.

13. In the second head of our terms of reference mention is made of the fact that in accordance with the terms of the Bill now before Parliament existing physical assets, such as railways and public buildings, will be vested in the Government of the geographical area within which they are situated, while the responsibility for the discharge of the liabilities of the Central Government will likewise be allocated between the two countries, the great bulk of this responsibility falling on continental India. The debt for which the Government of Burma is liable to the Government of India will therefore be arrived at as the difference between the liability which Burma should assume in accordance with the principles stated above and that for which she will actually assume direct responsibility.

THE VALUATION OF ASSETS AND LIABILITIES.

14. We proceed to consider the various categories of assets and liabilities to be brought into the account.

Our examination of these could not, of necessity, be exhaustive. The latest published figures available to us were those for the 31st March 1933 ; and even in regard to these our knowledge on points of detail has inevitably been imperfect. Between the 31st March 1933 and the date of separation the actual list of assets and liabilities will change both in composition and in the amounts of the several items, and it is possible that new types will have come into being. In some cases we have had warning of the changes and have been able to indicate how they should be dealt with ; in others we can only advise that they should be dealt with in accordance with the general principles which we advocate, and which by way of illustration we have applied to the figures of March 1933. We indicate at a later stage the machinery by means of which we consider that the actual apportionment of the liability after the date of separation could appropriately be worked out.

LIABILITIES.

15. The bulk of the liabilities consists of interest-bearing obligations. We proceed to consider in detail the various items in this category.

(a) *Permanent Debt.*

16. Under this head we include all debt so described in the Finance and Revenue Accounts of the Government of India with the exception of the liability assumed in respect of British War Loan : that is to say, all loans, whether rupee or sterling, held by the public, with or without fixed dates of redemption, and all Railway Annuities, but not Treasury Bills.

17. It was proposed in the Howard-Nixon Memorandum that Permanent Debt should be assessed as a liability at the total nominal amount of its various items. This figure would, in any event, need amendment to allow for the interest accrued up to the date of separation ; but even if corrected in this respect, the nominal amount of the debt is, in our opinion, an inaccurate measure of its true burden. The

public debt now includes, and must almost inevitably include on the date of separation, loans differing widely in regard to rates of interest and dates of redemption. These range from irredeemable stock with a rate of interest as low as $2\frac{1}{2}$ per cent. to redeemable loans bearing interest at $4\frac{1}{2}$, 5 or $5\frac{1}{2}$ per cent. It is clear that the actual burdens represented by such loans may differ widely from their nominal amounts. The burden of a loan is measured not only by the sum payable on redemption, but also by the periodic interest payable during the intervening period ; and in the extreme case of an irredeemable loan it is the latter factor alone which has significance.

18. In our view, therefore, the liability attaching to all loans should be assessed with direct reference to the only relevant facts, namely, the sums payable, whether by way of principal, interest, or instalments of annuity, up to the date of repayment or termination. We recommend that these sums should severally be reduced, by the operation of discount at a uniform rate, to equivalent values at the date of separation, and that the total of these values should be taken to be the liability at that date.

19. The application of this method involves the assumption, in certain cases, of the date of redemption of the loan ; and in all cases of the rate of interest at which future payments are to be discounted. The determination of the date of redemption should present little difficulty. It is a sufficiently correct assumption, where optional dates are available, to assume that redemption will take place at the earliest if the loan stands above par and at the latest if it stands below. With regard to the rate of interest, we consider that it should represent the average yield, over a period of two years preceding the date of separation, of the rupee and sterling securities of the Government of India with an unexpired currency, reckoned up to the probable date of redemption, of 15 years or more. This yield could conveniently be reduced in the first instance from the recorded prices on a fixed date in each month, and the result rounded to the nearest quarter of 1 per cent. The rate so determined can appropriately be employed in another connection, namely, for the calculation of the interest to be paid by Burma on her obligation to the Government of India.

20. Inasmuch as it may appear that the use of an estimated rate introduces an arbitrary element into the assessment of Burma's liability, it may be pointed out that a variation of the rate operates on the annual charge against Burma in two directions which are to some extent compensatory. An increase of the rate, for instance, diminishes the present value of the total liability and in consequence the proportion of the net liability for which Burma is responsible ; the net effect, therefore, is that she becomes liable for a higher rate of interest on a smaller debt. Conversely, a reduction of the rate of interest used in the calculation increases the present value of the total liability and Burma consequently becomes responsible for a lower rate of interest on a larger debt. In an appendix to this Report we give estimates of her liability compiled to the best of our ability on the information available as to the figures of the 31st March 1933, using for the valuation, of the debt rates of $3\frac{1}{4}$, $3\frac{1}{2}$ and $3\frac{3}{4}$ per cent. It will be seen that the interest charges differ in these three cases by comparatively insignificant amounts.

(b) *British War Loan.*

21. The liability assumed by the Indian Government for the service of a definite portion of the British War Loan differs from that attaching to Indian loans inasmuch as instalments of interest have, for the present, been discontinued in accordance with general arrangements for the suspension of war payments and the sums payable in future are, therefore, uncertain. We recommend that Burma should be directly responsible to the British Government for her appropriate share, in accordance with the ratio which we recommend hereafter, of any future payments of principal or interest. This recommendation need not, of course, preclude India from making the payment on behalf of Burma by mutual arrangement.

(c) *Treasury Bills.*

22. Treasury Bills should in our opinion be valued at issue price plus accrued discount to the date of separation.

(d) *Cash Certificates.*

23. Cash Certificates should be valued at issue price plus bonus accrued at the date of separation.

(e) *Post Office Savings Bank Deposits.*

(f) *Balances of Family Pension Funds.*

(g) *Balances of Provident Funds.*

(h) *Special Loans and Treasury Notes.*

(i) *Provincial Balances on which Interest is payable.*

(j) *Sinking Funds for Loans granted to local Bodies.*

24. We assume that the date of separation will coincide with the date to which, in the case of all the above items (e) to (j), interest is paid or added to the principal. If this assumption proves to be correct, the nominal amounts of the liabilities may be accepted as their value ; otherwise interest accrued to date of separation should be added.

(k) *Miscellaneous Liabilities.*

25. A list of miscellaneous liabilities was given in Annexure C to the Howard-Nixon Memorandum, and similar figures for the 31st March 1933 have been furnished by the Government of India. We have not been in a position to examine these lists in detail, and in any case a final pronouncement as to the correctness of the various items could only be made after the actual date of separation. We content ourselves, therefore, with stating that, with certain exceptions specified below, the items appear to be properly included among the divisible liabilities.

(l) *Depreciation Reserves.*

26. The Railway depreciation and general reserves, the depreciation reserves for other commercial Departments, and for Central Presses, and the Army depreciation reserve, have been included as liabilities in the Howard-Nixon Report. These entries in the accounts do not in our opinion, represent true liabilities, but are rather to be regarded as indicating

the abatements from the book value of the corresponding assets to be made in assessing their value. We deal with them in connection with the assets.

(m) *The Military Reserve.*

27. The Military Reserve represents the amount by which actual military expenditure since 1928-29 inclusive has fallen short of the amounts provided in the Budget, and has been entered as a liability under the arrangements for a stabilised military budget, whereby savings in one year may be added to expenditure in subsequent years. It has been suggested that this sum represents a liability of the Central Government to the Military department, which Burma should share, receiving in return such portion as may correspond to her actual military establishment. We are unable to accept this view. The announced intentions of a Government with regard to one of its departments cannot, in our opinion, be held to create a divisible liability, and we recommend that the balance under this head be ignored.

(n) *Road Development Fund.*

28. We agree with the recommendation of the representatives that any balance under this head should be omitted from the account.

(o) *Pensions.*

29. We have indicated above that we regard the payment of pensions as the discharge of a liability accrued at the date of separation, differing in no essential respect from the repayment of debt or of any other obligation, and that Burma should share this liability in the general ratio which we advise hereafter for the apportionment of the net liability. Burma's obligation in this respect would no doubt be most accurately discharged by the periodic refund to India of the appropriate share of the actual pensionary payments. This method of settlement, however, would in practice be intolerably cumbrous. Burma's liability extends not only to pensions actually in course of payment at the date of separation, but to pensions commencing after that date and earned in part by central service prior to separation. A running account between India and Burma would therefore involve the division of the total pension bill in both countries into two portions, apportionable and non-apportionable. The former portion would include a varying fraction of the pensions granted after separation to central officers serving at the date of separation, and the adjustments would continue until the disappearance of the charges in respect of the youngest officers then serving, a very long period. We recommend, therefore, that the liability of Burma should be ascertained as a present value at the date of separation and added to the debt due to the Government of India. We recognise that the valuation of this liability may not be free from difficulty, and may involve at the outset a certain amount of labour and expense. We feel, however, that the objections to a running account of long duration are so strong that every effort should be made to overcome these difficulties, and we indicate, in dealing with the third term of our reference the means by which we think that this end may be achieved.

30. It has been pointed out to us that, under a settlement made in 1921 between the Centre and the Provinces, there are charged against

Central Revenues certain pensions properly debitable to the various Provinces, and that these should more correctly be shared, not in the general ratio applicable to Central liabilities, but in a ratio dependent on the extent to which the service they represent was rendered in Burma and in continental India respectively. We are of opinion that the results, at this stage, of an attempt to adjust the incidence of these pensions would be negligible and would fail to justify the labour involved. We recommend, therefore, that all pensions recorded in the accounts as central at the date of separation should be included among the divisible liabilities.

31. It has been proposed by the representatives on both sides that the payments recorded under the head "Territorial and Political Pensions" should be divided on the basis of the territory in respect of which they arise. Although this proposal may seem at first sight inconsistent with the general principle which we have advocated, we are nevertheless prepared to accept it. These payments are not for the most part pensions in the true sense, and are correctly treated as current expenditure rather than as the discharge of accrued liabilities.

(p) Accrued Portions of Future Payments and Receipts.

32. We have recommended above that in the case of interest on debt, Burma should be liable for a share of sums accrued but not payable until after the date of separation. It has been suggested to us that in other cases a similar adjustment should be made. Pay, for instance, is ordinarily disbursed on the first of the month, and it has been claimed that Burma should bear a share of the amount accrued. Similarly, it has been suggested that receipts or refunds of revenue relating to the period before separation, but not actually paid or received until after that date, should be brought into the account of divisible assets and liabilities.

33. It is evident that any general scrutiny and apportionment of receipts and payments occurring after the date of separation would be impracticable. The normal practice of the Government of India is to record all revenue transactions as appertaining to the year in which the cash passes. We are of opinion that this practice should generally govern the incidence of transactions occurring after the date of separation. We have excepted the case of interest on debt both on account of its relative magnitude and because its true incidence is readily and accurately determinable. In other cases we are satisfied that the results attained would not justify the labour involved or the occasions for friction which the attempt to allocate the transactions would offer. We would not, however, exclude the possibility of adjusting, in the final settlement, the incidence of any large payments or receipts which for exceptional reasons and not as a consequence of the normal carry-over from year to year, are overdue at the date of separation.

34. A claim somewhat akin to those discussed above has been advanced on behalf of the Government of India. It is contended that Burma should accept liability for a share of the cost of leave due to officers at the date of separation. We are not satisfied as to the validity of this claim. The absence on leave of a proportion of the total strength is a normal incident of service, anticipated and duly taken into account when the numbers necessary to discharge the functions of government are determined. Its cost, therefore, may not unreasonably be regarded for practical purposes as an item of current cost rather than as the discharge

of an accrued liability. Other instances could be cited where a theoretical connection can be traced between expenditure incurred after separation and service rendered before that date, or *vice versa*. We have no reason to suppose that an exploration of all possible claims of this nature would tell in favour of one party rather than of the other. In any case the results would not justify the labour involved. We recommend that all expenditure should, except where we have specifically indicated the contrary, be held to relate to the period in which payment is made.

ASSETS.

35. We turn to the consideration of the various assets.

36. The principal material asset of the Central Government of India is its railway system. With this may be grouped certain other so-called "commercial" assets, that is to say, assets with a direct earning capacity, the capital cost of which, though in some cases met wholly or partly from revenue, has been shown in the accounts of the Government of India as an off-set to an equivalent portion of the public debt.

37. The records in the accounts for the most part show the total sums expended on these assets. In the case of the Posts and Telegraphs Department the account shows, exceptionally, the depreciated value of assets existing on 1st April 1925 and the full value of all assets acquired thereafter. There are also shown in the accounts, in respect of all the principal commercial undertakings, depreciation or replacement reserves accumulated from sums set aside out of the income of past years.

38. We have considered various methods by which the value to be attached to these commercial assets might be ascertained. The method of valuation on a commercial basis with reference to earning capacity we dismiss as not only impracticable but irrelevant. It is clear that many assets must have a value to the Government owning them wholly unrelated to their earning power. There remain the alternatives of valuation on a replacement basis and valuation on a basis of cost. The former method, even if it could otherwise be justified, seems to us to involve practical difficulties which exclude it from consideration. We recommend, therefore, appraisalment on a basis of cost subject to suitable allowance for depreciation or replacement.

39. It has been represented to us that in many cases, notably in that of the railways, the depreciation reserves have been established only for a small portion of the period elapsed since the assets were first acquired, and that had they been accumulated on commercial accounting principles from the commencement they would amount to far greater sums. It is suggested therefore that, in order to arrive at the correct values of the assets, larger sums should be deducted from their cost than are shown in the depreciation accounts. We are unable, however, to accept this view. The assets are being handed over to the new Governments for continuous use, and, in our view, no more is necessary, in order to raise their value for practical purposes to the full original cost, than to hand over with them such sums as will be sufficient, together with the normal appropriation from the revenue of each year, to meet any demands for replacement which can reasonably be foreseen. In practice the handing over would be

effected by a corresponding reduction of the value assigned to the asset for the purpose of the settlement. We are satisfied that in the case of all the principal assets of the type under consideration, the sums which, assuming the present scale to be maintained, will have been set aside by the date of separation will be sufficient for the purpose indicated. We recommend, therefore, that, subject to certain adjustments mentioned below, the assets should be assigned the values recorded in the accounts as the date of separation less the sum then standing to the credit of the appropriate depreciation or replacement reserves.

(a) *Railways.*

40. The recorded cost of the railways on 31st March 1933 was 7,97.11 crores, of which 40.36 crores had been met from capital raised by companies still working as such or by Indian States, leaving the cost met from the funds of the Central Government at 7,56.75 crores. The balance then at the credit of the depreciation account was 26.54 crores. There was also a balance of .47 crores at the credit of a general reserve account accumulated from past earnings, represented by investments in the shares of company-owned lines. Of the balance at the credit of the depreciation reserve 14.48 crores had been appropriated to meet the loss on the working of the railways in 1931-32 and 1932-33. It is estimated that by 31st March 1936 the total accumulations in the depreciation reserve will have reached $41\frac{1}{2}$ crores and the amount appropriated out of this to meet losses $28\frac{1}{2}$ crores.

41. We regard as irrelevant that fact that past losses have been set against the balance of the depreciation reserve. Our task is to assign a value to the railways, and for this purpose we consider that the proper deduction from the cost is the amount set aside for depreciation. The fact that losses have occurred in recent years obviously neither lessens the need for future replacements nor increases the value of the railways.

42. In two respects the recorded cost of railways differs from the actual cost. The purchase of certain railways was effected by means of the issue of annuities or stock, and the nominal capital has been written down, by the gradual reduction of the capital represented by the annuities or by sinking fund payments, by the sum of $29\frac{1}{4}$ millions, equivalent at the rates of exchange appropriate to the dates of purchase to 39.89 crores. The representatives of Burma claim that this sum, which does not represent any reduction in the real value of the railways in question, should be restored to the cost for the purposes of the division. We accept their view.

43. On the other hand, in certain cases cash sums payable on the purchase of lines have been discharged by the issue of India stock, and the nominal amount of such stock has been recorded as part of the cost, which has by this means been increased by the sum of £1,400,906. We consider that the cash figures should be adopted throughout.

44. The investment held on account of the Railway Reserve should be treated as an asset and added to the value of the railways. No real liability attaches to this reserve.

45. The value which we would assign to railways on the figures of 31st March 1933 is, therefore, as follows :—

	Rs. crores.
Cost met from Government funds as recorded ..	7,56.75
<i>Add</i> : Amounts written-off	39.89
	7,96.64
<i>Deduct</i> : Excess of stock nominal values over cash (say).	1.95
	7,94.69
<i>Add</i> : Investment in the General Reserve ..	.47
	7,95.16
<i>Deduct</i> : Accumulations of Depreciation Reserve.	26.54
	7,68.62
Net value	7,68.62

(b) *Other Commercial Assets.*

46. The remaining commercial assets may be valued on the method indicated above on the basis of the amounts recorded under the appropriate heads in the accounts.

(c) *New Delhi.*

(d) *Land purchased for the use of the Military Department under the Bombay Land Scheme.*

47. These items are properly treated as divisible assets, and the value may be taken at the cost of recorded in the appropriate statements in the Finance and Revenue Accounts (Nos. 67 and 74-E of the accounts for 1932-33).

(e) *“ Dead ” Assets.*

48. The term “ dead ” assets has been applied to a large number of miscellaneous assets the cost of which has been met from revenue, and no account of which is to be found in the published accounts of the Government of India. These assets include military buildings and stores, civil buildings and the High Commissioner’s premises in London. A list, admittedly imperfect, has been supplied to us by the representative of the Government of India, according to which the total value is about 91 crores, the value of the portion located in Burma being about 3½ crores. We see no reason for excluding these assets from the division in so far as their cost can reasonably be ascertained : and we recommend that an attempt be made, under the instructions of the body responsible for drawing up the final account after the date of separation, to make such estimate of

their value, on the basis of cost as is possible from the departmental records of all substantial civil and military properties in India and Burma, subject, however, to the proviso that where the information is not readily available no investigation should be made of the records of a period earlier than the last 50 years.

(f) *The India Office.*

49. Inasmuch as, under the Government of India Bill, it is proposed that the India Office shall vest in His Majesty for the purposes of His Government in the United Kingdom, to be used in connection with the discharge of the functions of the Crown in relation to both India and Burma, no apportionment of the value is necessary.

(g) *Advances to Provinces.*

(h) *Other Interest-bearing Advances.*

(i) *Investments of Cash Balances.*

(j) *Investments of Sinking Funds.*

(k) *Silver Redemption Reserve.*

50. As in the case of interest-bearing liabilities, accrued interest should be added to the nominal value of these assets in assessing their value. The item Silver Redemption Reserve does not appear in the accounts for 1933, the figures of which we have used for illustrative purposes.

(l) *Cash and Miscellaneous Assets.*

51. A list of these is given in Annexure C to the Howard-Nixon Memorandum. As in the parallel case of the miscellaneous liabilities, we are unable to do more than state that the items appear to be properly included among the divisible assets.

THE RATIO.

52. Having indicated the methods which we think it right to adopt for the purpose of arriving at the total of assets and liabilities, we have now to determine the ratio in which the balance of liabilities should be divided between India and Burma.

53. We do not believe that it is possible to formulate any theoretical principle, or to select any single criterion or set of criteria, by means of which the relative contributions to be levied from the two communities for the discharge of a common obligation can be precisely determined. The only course open to us has been to examine all the circumstances which seem relevant to the enquiry, and in the light of that examination to make an approximate estimate of the contributions which can justly be required.

54. For the purposes of this enquiry the natural starting point is furnished by the actual existing contributions for common purposes, in other words by the respective contributions of India and Burma to the Central revenues of the present undivided Government.

55. It has been suggested to us on behalf of the Government of India that the ratio we are seeking should be based on the revenues raised for

all purposes, Provincial as well as Central. The grounds advanced are, firstly, that the existing division between Central and Provincial functions is a domestic one subject to amendment or revocation ; secondly, that the existing obligations are, in the last resort, secured on all revenues, Central and Provincial ; and thirdly, that the combined revenues afford a broader and more equitable basis for the determination of relative capacity to pay than is afforded by Central revenues alone. We feel, however, that in practice our main guide must be the actual administrative and financial organisation of the Indian Empire, which is one under which Central obligations are met from Central revenues alone and Provincial revenues are assigned to meet Provincial needs. We do not, moreover, consider that we could take cognisance of Provincial revenues for this purpose without bringing into the account Provincial assets and liabilities.

56. We are entitled to assume that in framing its revenue system in the past the Government of India has been concerned, so far as administrative considerations allowed, to make it generally equitable, both as between individuals and as between wider areas, in respect alike of burdens imposed and of benefits conferred. That does not, however, preclude us from taking into consideration other factors which in our opinion are relevant to a fair apportionment of existing liabilities as between the two areas concerned. Nor should it be taken as any reflection upon the administrative or economic policy of the Government of India, if, for our purposes, we subject the *prima facie* ratio of direct revenue contributions to certain adjustments which those factors appear to us to require.

57. In this connection it will not be out of place to quote the Government of India's own description of the character of its Central revenues already quoted by the Indian Statutory Commission, Vol. I, page 345 :—

“ To meet its own expenditure the Government of India retains in the first place the entire profits of the commercial departments, and secondly, all the revenues whose *locale* is no guide to its true incidence, such as the net receipts of Customs, Salt and Opium.”

58. It was in consequence of a similar uncertainty as to true origin that the authors of the Howard-Nixon Memorandum agreed to exclude from their survey of revenues all figures relating to Income-Tax, and to consider only the receipts arising from Customs, Salt, Opium, Tributes and Railways. We recognise the grave difficulties attaching to any attempt to assign a local origin to Income-Tax receipts. At the same time we feel that if this item is excluded from the calculation, a factor is omitted which might seriously prejudice the result. We have, therefore, for the purposes of our investigation, adjusted the recorded figures of Income-Tax to the best of our ability in regard to certain large undistributed items and have made use of the amended totals. With regard to the other heads we accept the view of the Government of India that Opium receipts are no longer a relevant factor, and we have excluded receipts from Railways both on account of their uncertainty and because they do not represent contributions by the inhabitants of the respective areas in their capacity as taxpayers. Our computations of the direct revenue contributions are, therefore, based on receipts from Customs, Salt, Tributes and Income-Tax as readjusted.

59. In the case of Customs duties it is obvious that the true economic incidence of a duty falls, not upon the area in which the duty is collected, but upon that in which the article is ultimately sold. Where the tariff is protective that incidence further includes, not only that element in the price of imported goods which represents the duty at the port of entry, but also that element in the price of competing home products which is maintained by the duty, and which, under a strictly revenue tariff system, would have been subject either to import duty or to excise. Owing to her geographical isolation and remoteness from the main centres of Indian industry, the protective effect of the Indian tariff has been very much less marked in Burma than in continental India, and it has, in fact, operated mainly as a high revenue tariff. In other words, the visible revenue element in Burma's contribution to the maintenance of Indian fiscal policy has been disproportionately high. This does not mean that Burma, as a part of the existing Indian Empire, has been unfairly mulcted in order to support a protective system. But it does mean that it would not be fair to Burma to take the customs revenue actually collected in Burma into our calculation without some adjustment to correct the peculiar effects of her geographical situation.

60. We have not considered it necessary, or indeed possible, to attempt anything in the nature of an exhaustive calculation in order to arrive at an accurate estimate of the ratio of Burma's contribution as so readjusted. An indication, however, of the character and extent of the readjustment involved is furnished by taking the figures relating to four of the most important items in the customs list, *viz.*, cotton piece-goods, white sugar, steel, and kerosene, and weighting them on the hypothesis that the domestic product had been subject to an equivalent excise, but making allowance for duties paid on imported materials such as dyestuffs and machinery. On this basis it would appear that Burma's real contribution for the years 1928-29 to 1931-32 has been about 8 per cent. of the total central revenues of the Indian Empire, as compared with a figure of 9½ per cent. suggested by the figures of actual revenue locally collected.

61. An entirely different angle of approach to the problem would be to base the ratio of contribution upon relative national wealth or income. It has been urged on behalf of India that the standard of living and income is definitely higher in Burma than in India. The representatives of Burma, while admitting this, have adduced figures to show that the difference is not nearly so great as the revenue returns would appear to indicate, and that a ratio for Burma based on national income would be substantially lower than that deduced either from the existing or from the adjusted revenue contribution.

62. We have investigated in some detail those figures of income and consumption which appeared to us relevant to this aspect of the problem. We have examined in the light of figures placed before us by the representatives the average income of the agricultural worker and the average income assessed to tax, and have estimated the consumption of such staple commodities as cotton piece-goods, sugar and kerosene. We have also considered certain Provincial heads of revenue which might be regarded as affording an index of general prosperity or spending power. We recognise that none of these lines of approach can afford a precise index of taxable capacity. For what they are worth

they would seem to indicate that the average money income in Burma is about 20 per cent. higher than in continental India, which, statistically, and allowing for population, would suggest a ratio in the neighbourhood of $6\frac{1}{2}$ per cent. But the yield of taxation normally and appropriately rises more rapidly than the income. Moreover the greater mineral and forest wealth of Burma and the existence there of a higher proportion of non-indigenous interests liable to taxation, suggest a somewhat higher revenue-producing capacity. We feel justified, however, in concluding as a result of our investigations in this field that Burma's true capacity to pay is somewhat lower than would appear from the revenue returns even after the adjustments indicated above.

63. Another general and even less accurately ponderable consideration advanced on behalf of Burma in favour of a lower ratio than that indicated by revenue contribution refers to the geographical distribution of the benefits conferred by Government expenditure and Government policy. It has been argued that the fact that the overwhelming bulk of the military expenditure, amounting to nearly 50 per cent. of the net Central revenue from taxation, is disbursed, by way of pay, pensions, rations, equipment or transport, in India, constitutes a substantial benefit in which Burma has very little share. Similarly it has been suggested that, up to the present at any rate, the direct benefits of the Indian protective system have inured almost wholly to manufacturers and workmen in India.

64. We do not propose to assign any precise weight to these different alternative arguments for a ratio of contribution below that of the actual revenue contribution of recent years. But our study of all the various aspects of the question and of the arguments and figures presented to us has led us to the conclusion that, for our particular purpose of arriving at a just financial settlement, the proper ratio in which Burma should contribute in respect of the liabilities outstanding at the date of separation (subject to certain qualifications in connection with currency) should be 7.5 per cent.

CURRENCY.

65. We have referred in an earlier paragraph of this Report to an agreement arrived at between the Government of India and the present Government of Burma for the continuance of Burma within the Indian currency system, and to the special arrangements proposed, in consequence, for the apportionment of certain assets and liabilities connected with or arising out of the working of the currency system. We proceed to deal with this question in greater detail. It will be desirable at the outset to recapitulate briefly the nature of the agreement between the two Governments.

66. The main provisions of this agreement are as follows :—

The Reserve Bank of India will manage the currency and carry on the business of banking in Burma.

The bank will issue distinctive notes which will be legal tender in Burma but not in India, and Indian notes will cease to be legal tender in Burma after a reasonable interval.

The Government of Burma will have the right after due notice of issuing distinctive Burman coins. Should they exercise this right Indian coins in Burma will be retired through the Government of Burma, which will not be entitled to receive in return the equivalent of the nominal value, but must dispose of them by one or other of the following methods :—

- (a) It may deliver them to the Government of India against payment of the bullion value plus the cost of minting an equivalent amount of new coinage ;
- (b) It may arrange with the Government of India to recoin them with Burman designs and such recoinage will be free of charge unless the number and composition of the coins alter materially ;
- (c) It may itself, subject to certain restrictions, dispose of the silver content of rupees which it does not desire to have recoined.

The agreement is to be terminable on two years' notice by either side, with a minimum period of three years from the date of separation. On termination of the agreement the Government of Burma will be free to sever its connection with the Reserve Bank and to make such arrangements as it thinks fit for the management of currency and the control of credit. It will become liable for the note issue outstanding in Burma and will receive a corresponding share of the assets of the Issue Department of the Reserve Bank.

67. Our terms of reference do not authorise us, nor do we wish, to offer any criticism of this agreement. Certain consequential suggestions have, however, been made which in our opinion fall within the scope of our enquiry. These suggestions relate to the division of assets and liabilities accrued at the date of separation as the result of past operations in the sphere of currency and exchange and to future profits arising in the same connection. In order to state clearly the points, settlement of which is called for, it will be necessary to set out in some detail the nature of the various items calling for consideration.

68. The Government of India has in the past drawn large profits from coinage, note issue, and remittance operations. Many of these profits are not now readily identifiable, notably the large sums credited from time to time to Revenue ; others are represented by concrete assets like the Gold Standard Reserve, while yet a third category is represented by reductions of the public debt of ascertainable amount. Certain losses incurred in the same connection can similarly be identified with definite increases in the debt.

69. On the establishment of the Reserve Bank, which it is anticipated will take place on the 1st April 1935, the Government of India will, under the provisions of the Reserve Bank Act, transfer to the Bank the responsibility for the outstanding issue of currency notes, and will hand over an equivalent amount of gold, sterling securities, rupee securities, and silver coin. On the latest information we have been able to obtain, we may perhaps assume that the note issue on the

1st April next will be in the neighbourhood of 187 crores, and that the cover to be handed over to the Bank will be made up as follows :—

	Crores,
Gold and sterling securities	93½
Silver	50
Rupee securities	43½
	187

70. It may also be assumed that the reserves held by the Government of India against currency and exchange liabilities will exceed the total of the note issue by 53 1/3 crores, and that they will be made up as follows on the 1st April :—

	Crores.
Gold and sterling securities	113
Silver	93 1/3
Rupee securities	34
	240 1/3

71. In order, therefore, to provide the cover required by the Bank, in the form indicated above, it will be necessary for the Government of India to issue rupee securities to the value of 9½ crores. There will remain an excess in the total reserves, beyond the amount required to cover the note issue, of 62·5 6 crores, made up to as follows :—

	Crores.
Sterling securities	19½
Silver	43 1/3

Of the sterling securities it is proposed that 10 crores should be set aside as a special fund to meet the obligations of the Government of India in respect of rupees returning from circulation, to be known as the Silver Redemption Reserve. The remainder will be available for the general purposes of the Government of India.

72. Under section 46 of the Reserve Bank Act the Government of India is required to hand over to the Bank rupee securities to the value of 5 crores, in order to provide a reserve. These securities form an identifiable portion of the public debt arising out of the establishment of the Bank.

73. To complete the analysis of the situation arising on the establishment of the Reserve Bank, it is necessary to add a figure representing additions to or reductions of the net liability of the Government of India arising out of past currency or coinage operations, other than those included in the items enumerated above. As has been said above, this figure is very difficult to assess. Certain items entering into it can be fairly readily identified, as for instance the losses on sales of silver and

securities from the Paper Currency Reserve, and the gains or losses arising from the revaluation of sterling securities consequent on the changes in the parity of the rupee made in 1920 and 1927. There are, however, many other items less readily distinguishable and perhaps less obviously appropriate for inclusion, and an exhaustive enquiry might result in a list of great length, but of doubtful validity. In view of our recommendations below it is unnecessary for us to attempt the task of discriminating between these various items.

74. After the establishment of the Reserve Bank the Government of India will be liable, under section 36 of the Reserve Bank Act, to purchase from the Bank any silver in its issue department in excess of 50 crores, and must, on the other hand, issue to the Bank coined silver at full nominal price to the amount by which the silver in the issue department falls short of 50 crores ; subject normally in each case to a limit of 5 crores in any one year. There will thus be periodical profits or losses both before and after separation. The Government of India has in addition a right to a share, calculated in accordance with rules laid down in the Act, of the profits of the Bank.

75. The Government of India is precluded by section 38 of the Act from issuing rupee coin otherwise than to the Bank in the manner described in the last section. The silver lapsing to Government as stated in paragraph 71, and there assessed at its nominal value in coined rupees, can thus in fact only be realised either by issue to the Bank or by sale as bullion in the market.

76. It is proposed by the two Governments in agreement that not only future receipts and payments of the nature indicated in the immediately preceding paragraphs, but also assets and liabilities existing at the date of separation of the types indicated in paragraphs 71 to 73, shall be excluded from the general scheme of adjustment, and apportioned between the two countries in a special ratio to be determined from the note issue. After the initial period it is proposed that the ratio applicable to any year shall be that borne by the average circulation of Burman notes to the total average circulation in Burma and India combined. For the division of the initial assets and liabilities, and for the division of annual profits and losses during the first three years, it is proposed to employ the ratio deduced from the figures of the third year ; a provisional allocation subject to adjustment being made in the interim period. Burma will have the right, if it appears that Indian notes are, by the end of three years, circulating in Burma to any appreciable extent, to require the extension of this period. The special note ratio would apply not only to the ordinary profits of the Bank, but to any special profits realised as the result of the revaluation of its gold holdings. In the event of Burma deciding to sever completely her connection with the Indian currency system she would be entitled to a share, calculated on the note ratio applicable at the time, of the surplus assets which would accrue to the Government of India in the event of the Reserve Bank being liquidated under section 57 of the Reserve Bank Act.

77. It will be observed that under the above proposals the stock of silver taken over by the Government of India on the establishment of the Reserve Bank would not be valued and brought into the account of liabilities and assets, but would be held as a common asset and distributed

only as and when realised. In the event, however, of Burma deciding to supersede the rupee with a coin of her own, it is proposed that she should at once receive her due proportion, based on the note issue, of such of this silver as remains ; and she would have no further interest in transactions between the Bank and the Government of India under section 36 of the Reserve Bank Act.

78. So far as the above proposals relate to profits and losses accruing after the date of separation, we have no criticism to offer. The two Governments are, under their agreement, continuing as a partnership the common interest in currency and coinage which they formerly had as a unitary Government, and the proposals for the definition of their respective shares seem reasonable. With regard, however, to the assets other than silver, and to liabilities arising out of past currency working and existing on the date of separation, we see objections, both theoretical and practical, to the proposals. Of the latter nature is the fact that they will involve a delay in the final settlement of at least three years, and that the determination of the items to be included in this special settlement is difficult and must be, to a great extent, arbitrary. As a matter of principle, on the other hand, we see no distinction between assets or liabilities which have arisen from currency operations and those which have arisen from any other cause. Even in what is perhaps the most striking case, the debt raised to provide the Bank with a reserve, it is nevertheless true that this debt is charged on the revenues of united Indo-Burma in the same manner as any other debt, and there would seem to be no good reason for its exclusion from the general body of liabilities. On grounds, therefore, both of principle and of expediency, we recommend that all debt outstanding on the date of separation, and all securities or cash held as a result of currency working, but not the store of metallic silver, should be included in the common account and divided on the principles we have recommended in the earlier portions of this Report.

79. It is necessary to add a recommendation on one point of detail. The joint proposal of the two Governments provides that in the event of the Government of Burma leaving the Indian currency system she shall have the option of returning currency to the amount of the Treasury balances held in Burma at the date of separation and cancelling an equivalent amount of her debt to India. We see no justification in theory for this proposal, and possible objections in practice. We recommend, therefore, that no exception be made in this respect to the general arrangement for the redemption of Indian currency.

FORM OF INDEBTEDNESS.

80. We have above explained the broad principles on which we advise that the liability of Burma to India should be ascertained, and have indicated, in such detail as is at this stage possible, the methods by which we consider that these principles should be applied. It will be observed that the process envisaged necessarily involves the expression of all the items entering into the account in terms of a common currency. It has been represented to us that, although Burma's liability must for this reason be calculated in the first instance in rupees, some portion of that liability should, nevertheless, be repayable in sterling. This does not

necessarily imply that the actual payments by Burma to India would be made otherwise than in rupees. The suggestion is rather that if the value of the rupee varies in terms of sterling, the outstanding indebtedness of Burma would be correspondingly increased or diminished.

81. We have given reasons for holding that in the case of one particular liability, the obligation undertaken in respect of British War Loan, Burma should be directly responsible for her share of the actual sterling payments. With regard to the remainder of her liability, however, we are of opinion that any attempt to express a portion in sterling is inadvisable. The liability of Burma to India has no specific relation to the various items of India's outstanding debt, and it is not possible, therefore, to formulate with confidence any principles on which the amount of the sterling liability could be determined. In these circumstances we see no reason for departing from the natural arrangement under which inter-Governmental debts are expressed in the currency of the creditor country. We recommend, therefore, that Burma's obligation to India should be wholly expressed in rupees and should not be subject to revision in the event of any change in the exchange parity after the date of separation.

METHOD OF PAYMENT.

82. We have recommended above that the main body of liabilities should be valued at a rate of interest to be ascertained at the date of separation, and have stated that this rate could properly be used for the calculation of the interest to be paid by Burma on her debt to India. We have next to consider the method by which Burma should discharge this debt. It has been represented to us that inter-Governmental debts are a fruitful source of ill-feeling and that it is desirable that provision should be made not only for the payment of interest, but for the ultimate repayment of the capital. Various proposals have been put forward as to the period and method of repayment. The Government of India consider that repayment should be complete within 30 years from separation, but have formulated no definite scheme for the determination of the periodic amounts to be refunded. The Government of Burma contemplate repayment by means of a level annuity calculated to redeem principal and interest in 60 years. They support their advocacy of this period by its general accordance with the average of the periods assumed in Sir Basil Blackett's debt redemption scheme of 1924 as appropriate for the redemption from revenue of the various types of debt. We do not regard this argument as relevant. Although Burma might think it desirable as a measure of sound finance to meet all repayment of the debt from revenue, it is not necessary to assume that the requisite funds will be raised in this way. On the other hand we consider that in all the circumstances the period assigned by the Government of India is too short. We recommend that repayment should be made by means of an annuity due in half-yearly instalments, and sufficient to repay the whole capital, with interest at the rate employed for the valuation of the debt, by the end of 45 years, the first instalment to be payable six months after separation.

83. We would, however, exclude from the operation of the above recommendation one item of the debt. We have recommended that the liability in respect of pensions should, if possible, be capitalised. There will, however, be a charge coming into course of payment after separation for pensions of staff transferred to Burma, the growth of which would in the normal course be an offset to the decrease in the charge for pensions previously in issue. There are practical advantages in preserving this compensatory action, which has the effect of keeping the total charge for pensions approximately constant. This may be to some extent achieved if the liability to India is discharged by an annual payment, decreasing by level decrements over a period of, say, 20 years, and we advise that this course should be followed.

The above recommendation applies solely to the liability for pensions in course of payment at the date of separation. The liability for part-earned pensions, the actual payments in respect to which will not commence until after separation, and will extend over a long period, may appropriately be added to the general debt and included in the general annuity.

84. We have considered whether, with a view to shortening the period during which Burma will remain under an obligation to India, she should have the option of redeeming her debt, or any portion of it, in advance of the date of termination of the annuity. We prefer to leave both countries entirely free at any time to settle by negotiation the terms on which they are willing, on the one hand to pay, and on the other to receive, sums in redemption of the outstanding instalments of the annuity, or of any portion thereof.

MISCELLANEOUS.

85. The question has been raised whether certain annual payments and receipts connected with defence should be apportioned between India and Burma. These are on the one hand the contribution made from British revenues towards the cost of India's defence expenditure, and on the other the annual payment made by India towards the cost of the British Navy. It appears to us that these payments, which are not in the nature of fixed or legal obligations, cannot be treated as assets or liabilities at the date of separation. The problem of the defence of Burma as a separate State in the British Empire will no doubt involve consideration of the share she should properly take in the common defence.

86. Inasmuch as the apportionment of reparation receipts between the various constituents of the Empire has been based on the pensionary liabilities incurred in consequence of the War, and we have recommended that Burma should bear $7\frac{1}{2}$ per cent. of India's liabilities in this respect, it follows that any sums received in future on account of reparation should be divided in the same proportion.

THE FINAL SETTLEMENT.

87. As we have stated above in connection with the valuation of assets and liabilities, our investigation has necessarily had regard to general principles rather than to particular instances. The figures

appertaining to the actual date of separation cannot be known, at the earliest, for a period of nearly two years, and it will then be necessary to set up some machinery for the translation of our general recommendations into concrete figures. Under the third of our terms of reference we are asked to advise as to the nature of this machinery. It will be useful, as a preliminary to the statement of our views on this question, to set out the various tasks which will confront an individual or body of individual charged with the duty of drawing up the actual settlement.

88. It will be necessary for such a body to draw up a list of all the assets and liabilities of the present Government of United India as they stand at the date of separation and to assign a value to each. For this purpose it will doubtless rely in the main on the audited accounts of the Government of India. We have endeavoured to indicate, wherever doubt might arise, the manner in which these figures should be utilised to arrive at a valuation, and we do not anticipate that any question will arise as to the validity of the actual figures. In certain respects, however, our recommendations involve the framing of estimates or the determination of essential factors in regard to which the accounts offer no assistance, and the necessity for independent judgment will therefore arise. The main questions which must remain incapable of purely consequential determination are as follows :—

The determination of the rate of interest to be used for the valuation of debt.

The assessment of the capital value to be assigned to divisible pensions, both earned and part earned.

The appraisement of the value of dead assets both in continental India and in Burma.

There is, in addition, the possibility that, as instanced in paragraph 33, questions may arise which we have been unable to foresee and the application to which of the principles we have recommended is not immediately evident.

89. It has been proposed to us by the representatives, with the approval of their respective Governments, that the application in detail of our award might appropriately be entrusted to a Committee of three, of whom two would be members of the Indian and Burman services appointed by the respective Governments, with a chairman nominated by the Secretary of State. It is contemplated that where the nominees of the two Governments were in agreement, their decisions would stand and that the functions of the chairman would be mainly those of an umpire.

90. We are of opinion that the above procedure should provide a suitable machinery for the settlement of the problems that will arise, and we accordingly recommend its adoption. We proceed to consider in more detail the methods which we consider that the Committee, referred to hereafter as the Application Committee, might suitably adopt in relation to the points of difficulty enumerated above.

91. With regard to the rate of interest, we have advised (paragraph 19) a method of determination which will afford little scope for

divergence. The Application Committee, who will doubtless have placed at their disposal the services of the Secretary of State's expert advisers, should have no difficulty in reaching a decision as to the precise figure. The rate so determined should apply, not only to the valuation of debt, but to the capitalisation of pensions and to the calculation of the periodic payments to be made by Burma to India.

92. The assessment of the capital value of pensions is a task demanding specialised technical knowledge which can be performed only by a qualified actuary. We recommend that an actuary should be appointed to carry out the work. As we are advised that a considerable portion of his preliminary investigations could be made in advance of the actual date of separation, it is clearly desirable that he should be selected at an early date. We consider it advisable that he should be formally appointed by, and should report to, the Application Committee, and for this among other reasons the Committee should be constituted in the near future. The actuary appointed by the Committee would in the early stages of his investigation rely on the advice and assistance of the two Governments, supplied to him through the medium or under the instructions of their respective nominees. His report when finally submitted, after consideration of such advice, should be final.

We do not intend, in making the above recommendation, to preclude the Committee from making use of the services of separate actuaries to deal with specific portions of the total pension obligations if, for special reasons, they consider such a course desirable.

93. We have stated above our view that an attempt should be made, under the supervision of the Application Committee, to assign a value to the "dead" assets. The precise means by which this task can be carried out can best be settled by the Committee itself, and we do not feel it incumbent upon us to offer any detailed suggestion. We would, however, draw attention to the desirability of setting in motion at an early date such machinery as the investigation may require.

94. In conclusion we wish to express our indebtedness to Mr. Sidney Turner, C.B.E., for his services as Secretary. His knowledge and ability have been of very great assistance to us.

L. S. AMERY.

S. A. T. ROWLATT.

W. F. NICHOLSON.

SIDNEY TURNER, *Secretary.*

15th March 1935.

APPENDIX.

ESTIMATES OF BURMA'S LIABILITY TO THE GOVERNMENT OF INDIA AFTER SEPARATION ON VARIOUS ASSUMPTIONS AS TO THE RATE OF INTEREST TO BE EMPLOYED FOR THE VALUATION OF PERMANENT DEBT AND FOR THE CALCULATION OF THE ANNUITY.

(The figures relate throughout to the 31st March 1933, and must be regarded as illustrative only.)

I.—RATE OF INTEREST $3\frac{1}{2}$ PER CENT.

					Rs. lakhs.	Rs. lakhs.
Liabilities :—						
Permanent Debt :—						
Sterling	..	..	..	..	5,06,82·40	
Rupee	..	..	..	..	4,92,78·57	
						9,99,60·97
Liability for British War Loan (at par)	..	..	..	..		22,29·47
Treasury Bills (including accrued discount)	..	..	..	..		61,46·68
Cash Certificates (including accrued bonus)	..	..	..	..		64,85·11
Post Office Savings Bank deposits	..	..	..	..		43,39·64
Provident Funds, Special Loans, &c.	..	..	..	..		76,73·80
Family Pension Funds	..	..	..	..		15,29·72
Provincial Balances	..	..	..	..		7,02·37
Sinking Fund Deposits	..	..	..	..		95·50
Part-earned Pensions	..	..	..	..		87,00·00(a)
Miscellaneous liabilities	..	..	..	..		22,14·10
Total Liabilities, exclusive of liability for pensions in issue						14,00,77·36
Assets :—						
Railways :—						
Gross capital at charge	..	..	..	..	7,97,11·72	
Amount written off prior to 1924	..	..	..	..	39,89·05	
						8,37,00·77
Deduct—						
Amount contributed by Companies and Indian States	..	..	..	..	40,36·25	
Correction for difference between cash and stock	..	..	..	..	1,95·32 (b)	
Amounts set aside for depreciation or replacement	..	..	..	..	26,54·15	
						68,85·72
						7,68,15·05
Securities held on account of General Reserve						46·81
						7,68,61·86

	Rs. lakhs.	Rs. lakhs.	Rs. lakhs.
Other Commercial Assets :—			
Posts and Telegraphs	15,82·84		
<i>Less Depreciation</i>	2,69·42		
		13,13·42	
Irrigation		69·00	
Security Printing Press		42·22	
Currency Note Press		32·04	
Northern India Salt Department ..	89·47		
<i>Less Depreciation</i>	22·79		
		66·68	
Forests		12·95	
Vizagapatam Port		3,08·83	
			18,45·14
New Delhi			14,49·29
Military Lands at Bombay			2,31·12
“ Dead ” Assets			91,50·00(c)
Advances to Provinces			1,73,03·74(d)
Other interest-bearing advances ..			20,92·48(d)
Investments of Cash Balances			1,88·24(d)
Investments of Sinking Funds			3,22·49(d)
Cash and Miscellenous Assets			31,82·90
	Total Assets		11,26,27·26
Excess of Liabilities over Assets			2,74,50·10
Share of Excess assignable to Burma (7·5 per cent.)			20,58·76
Assets of which Burma will assume possession :—			
Railways :—			
Capital at charge		35,05·52	
<i>Less amounts set aside for depreciation or replacement</i>		57·03	
			34,48·49
Other commercial assets :—			
Posts and Telegraphs		1,16·15	
<i>Less depreciation.</i>		12·42	
			1,03·73
“ Dead ” assets			3,25·00 (c)
Advances to Provinces			7,51·47 (d)
Other interest-bearing advances ..			22·24 (d)
Cash to provide working balance (say)			2,00·00
	Total		48,50·93

	Rs. lakhs.
Liabilities for which Burma will assume direct responsibility :—	
Portion of liability for British War Loan	1,67,21
Post Office Savings Bank Deposits	1,46,25
Provident Funds	3,07,18
Part-earned pensions	3,75,00 (a)
Non-interest-bearing liabilities (say)	3,00,00
Total	12,95,64
Net assets to be assumed by Burma	35,55,29
Debt of Burma to India, being net assets as above, Rs. 35,55,29 lakhs, plus share of excess liabilities, Rs. 20,58,76 lakhs	56,14,05
Annual interest on above at 3½ per cent.	1,82,46
Annuity required to redeem principal and interest in 45 years	2,38,32

II.—RATE OF INTEREST 3½ PER CENT.

	Rs. lakhs.
Liabilities :—	
Permanent Debt :—	
Sterling	4,83,54,97
Rupee	4,76,28,80
	9,59,83,77
Other liabilities as before	4,01,16,39
Total	13,61,00,16
Assets as before	11,26,27,26
Excess of liabilities over assets	2,34,72,90
Share assignable to Burma	17,60,47
Net assets to be assumed by Burma, as before	35,55,29
Debt of Burma to India	53,15,76
Annual interest on above at 3½ per cent.	1,86,05
Annuity required to redeem principal and interest in 45 years	2,35,46

III.—RATE OF INTEREST $3\frac{3}{4}$ PER CENT.*Liabilities :—*

					Rs. lakhs.	Rs. lakhs.
Permanent Debt :						
Sterling	..	..	..	..	4,62,86.60	
Rupee	..	..	..	..	4,61,35.26	
						9,24,21.86
Other liabilities as before	..	..	..	..		4,01,16.39
						13,25,38.25
Assets as before	..	..	..	..		11,26,27.26
Excess of liabilities over assets		..	..	..		1,99,10.99
Share assignable to Burma	..	..	..	..		14,93.32
Net assets to be assumed by Burma, as before	..			..		35,55.29
Debt of Burma to India	..	..	..	..		50,48.61
Interest on above at $3\frac{3}{4}$ per cent.	..	..	..	..		1,89.32
Annuity required to redeem principal and interest in 45 years				..		2,33.12

NOTES.

(a) Part-earned pensions.—As no material was available for the accurate assessment of this liability the rough estimate given by Mr. Nixon has for illustrative purposes been adopted. The liability will in practice vary with the rate of interest assumed.

(b) Difference between cash and stock values in Railway Capital.—The rates of exchange at which these differences, which arose in sterling, were converted into rupees for inclusion in the total, are not available. The correction is therefore approximate only.

(c) "Dead" assets.—The figures are inserted for illustrative purposes only.

(d) Interest-bearing advances and investments.—No allowance has been made for accrued interest, the material for calculating which was not available.

The liability in respect of earned pensions must in all cases be added to the debt calculated as above. No estimate of this liability can at present be made with any claim to accuracy. The order of magnitude, however, of the payments to be made under the arrangements outlined in paragraph 83 of the Report may perhaps be represented roughly by an annuity commencing at 80 lakhs and decreasing by 4 lakhs a year.